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RUEHBR/AMEMBASSY BRASILIA 5897
RUEHBU/AMEMBASSY BUENOS AIRES 1579
RUEHLP/AMEMBASSY LA PAZ 2482
RUEHPE/AMEMBASSY LIMA 0748
RUEHSP/AMEMBASSY PORT OF SPAIN 3364
RUEHQT/AMEMBASSY QUITO 2580
RUEHSG/AMEMBASSY SANTIAGO 3898
RUEHDG/AMEMBASSY SANTO DOMINGO 0408
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RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0792
RUCPDO/DEPT OF COMMERCE
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RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000528

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)

SUBJECT: BP: TRYING TO KEEP A STIFF UPPER LIP

REF: A. 2006 CARACAS 910

- [1](#)B. CARACAS 504
- [1](#)C. CARACAS 472
- [1](#)D. CARACAS 426

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: The USD 250 million in crude that BP and Total received for the Jusepin field was based on capital recovery rather than book or market value. The deadline for negotiations on the strategic associations appears to be June 26 instead of May 1. BP is concerned about support services for Cerro Negro if ExxonMobil (XM) pulls out of Venezuela. It is also worried about PDVSA paying its joint venture partners. BP believes that all of the international oil companies (IOC) in the strategic associations, with the exception of XM, will migrate in the end.

TERMS OF THE JUSEPIN DEAL

[1](#)2. (C) Petroleum Attache (Petatt) met with BP Venezuela President Joe Perez (strictly protect throughout) on March 8 to discuss the recent Jusepin settlement as well as the state of the strategic association migration negotiations. Perez began the conversation by discussing Total and BP's March 5 expropriation settlement with PDSA for the Jusepin oil field.

[1](#)3. (C) PDVSA took control of the Jusepin field on April 1 when its operator, Total, failed to sign a memorandum of understanding that converted the operating service agreement (OSA) to a PDVSA-controlled joint venture (Reftel A). Total had a 55% stake in the OSA and BP had the remaining 45%. Total and Amoco signed a 20 year OSA with PDVSA for Jusepin in November 1993. The field came on stream in April 1997 with an initial flow rate of 10,000 barrels per day. Jusepin had a daily production rate of 27,733 barrels of 35 API per day in January 2006. The field had a production potential of 39,000 barrels per day at that time.

[1](#)4. (C) Perez stated Total and BP received USD 250 million in crude as compensation for the expropriation. He stated the amount reimbursed the companies for the capital they injected into the project and was not based on book or market value. He said Jusepin was one of the most profitable of the former OSA fields and that both companies had recouped their investments quickly. As a result, the amount they received from PDVSA was quite small. Perez complained that the companies were being penalized for being efficient.

THE STRATEGIC ASSOCIATION NEGOTIATIONS

[1](#)5. (C) Perez stated BP is carefully watching its Cerro Negro partner XMs negotiating position. Perez said he personally admired the tough stance that XM is taking with the BRV. He opined that XM's presentation of a detailed and workable transition plan has scared PDVSA (Reftel B). As reported in Reftel C, Statoil also believes that XM's recent moves have frightened PDVSA management. According to Perez, XM has clearly told PDVSA that if the transition on May 1 does not work, it will be PDVSA's fault and not XM's. CVP President and PDVSA director Eulogio Del Pino is particularly concerned since he is in charge of the transition. (NOTE: XM has a 41.67% stake in the Cerro Negro strategic association with

PDVSA holding 41.67% and BP 16.67%. END NOTE).

16. (C) Perez opined that a pullout by XM could be beneficial for BP. If XM pulls out, there will be no need to reduce BP's 16.67% stake in Cerro Negro. According to Perez, PDVSA has repeatedly stated that it only wants a 60% stake in each

CARACAS 00000528 002 OF 003

of new joint ventures that result from the conversion of the strategic associations. Perez believed that PDVSA realizes that it cannot handle a greater ownership stake. He stated President Chavez originally wanted complete control of the strategic associations but BRV and PDVSA officials convinced him that it was not realistic due to PDVSA's operational constraints. Perez did not speculate on what would happen to the remaining 23.33% stake in Cerro Negro if PDVSA took a 60% stake and XM pulled out.

17. (C) Perez stated senior BRV and PDVSA officials, including Energy Minister Rafael Ramirez, met with Total after the signing ceremony for the Jusepin deal. According to Total, the officials reviewed the terms of the nationalization decree (Reftel D). They told Total that PDVSA would assume operational control on May 1 but that none of the companies would be required to sign any type of document until June 26, the deadline the decree set for negotiations. Perez believed the companies would have an additional two months to negotiate if they were close to an agreement on June 26.

CERRO NEGRO

18. (C) When Petatt asked what would happen at Cerro Negro if XM pulled out, Perez said his greatest concern was support operations. Under the current operational arrangement at Cerro Negro, an XM subsidiary, Operadora Cerro Negro (OCN), operates the upgrader. XM Venezuela, however, provides all of the support services such as the payment of contractors and information technology. If XM pulls out, PDVSA will have to assume all of the support burden. Given PDVSA's poor track record with the former OSAs, Perez was concerned that two or three months after XM's withdrawal, support services would crumble. He was particularly concerned that contractors would not be paid in a timely manner. He ruefully noted that PDVSA owes BP over USD 257 million in payments for BP's two joint ventures in former OSA fields.

19. (C) When asked about operations, Perez replied that he was not concerned in the short run since the vast majority of OCN's employees will migrate to the new joint venture. He expressed concern that the employees may leave if they are not treated well. He opined that Cerro Negro's future performance depended on whether the OCN employees stayed on after the migration. He also noted that there was a very noticeable difference between XM and PDVSA employees during their meeting on March 5. The XM employees were mainly 28 to 35 years of age and came to the meeting well-armed with statistics and documents. The PDVSA managers, on the other hand, were older and wore ill-fitting suits. In addition, most of the PDVSA managers had been involved in the OSA migrations and had delivered less than stellar performances.

110. (C) On the subject of intellectual property, Perez stated he was not concerned. Most of Cerro Negro's information technology was off of the shelf. PDVSA will have to purchase the packages but it can easily do so. In addition, Perez stated PDVSA had a very good IT staff so the migration should not cause any problems with the upgrader's computer systems.

HANGING TOGETHER OR HANGING APART?

111. (C) When asked about the individual companies' negotiating positions, Perez stated Total has made it very clear that it does not want to repeat what it went through with Jusepin. As a result, it has adopted relatively easy terms. Perez believed that Total may be the first company to reach agreement with PDVSA and that PDVSA would then try to use that agreement as a template for the rest of the

CARACAS 00000528 003 OF 003

companies. He stated Total had been the driving force behind the six companies meeting to compare notes on the migration negotiations. However, it has since lost enthusiasm for the meetings.

112. (C) Perez noted Chevron only attended one of the meetings. He said Chevron does not appear to be talking to any of the other companies, including ConocoPhillips (CP). Chevron and CP are partners in the Hamaca strategic association.

113. (C) Perez said he was surprised that CP has taken such a strong position in the negotiations. He believes they were being even tougher than XM. He attributed this to the fact that CP, due to recent acquisitions in Canada, is no longer interested in acquiring more extra heavy crude reserves. On the other hand, the rest of the companies in the Faja still have a strong appetite for extra heavy crude. Perez believed

CP would eventually fold in the end because its investments in Venezuela represented 10% of the company.

BROWNFIELD